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Testimony of Senator Sam S.F. Caligiuri
SB 848, AAC Loans to Municipalities to Fully Fund Pension Systems
Labor and Public Employees Committee
February 6, 2007

Senator Prague, Representative Ryan and members of the committee, I would like to begin by thanking you for holding today's public hearing on SB 848, *An Act Concerning Loans to Municipalities to Fully Fund Pension Systems*.

This bill seeks to address a serious problem faced by many municipalities around the state. According to the Office of Policy and management, 79 Connecticut municipalities (listed in Exhibit A hereto) have unfunded pension liabilities. Such unfunded liability can create uncertainty for workers who are relying upon those pensions for their retirement as well as place significant financial burdens on taxpayers who must now find a way to increase funding for their pension funds at a time when many town budgets are strained. These problems will be exacerbated when Connecticut municipalities begin accounting for and funding their other post-employment benefits. Those of us who support this bill believe that it is good public policy for the state to help municipalities strengthen their pension funds before the impact of OPEB must be confronted by Connecticut's cities and towns.

This bill would address this problem by creating a low interest loan program, modeled after the state's Clean Water Fund, from which participating municipalities could borrow the money, at a below market interest rate, to fund their unfunded pension liabilities. The state would finance the program by issuing bonds. The interest rate for the loan program would be set below the rate paid by the state on its bonds but high enough that most of the state's debt service on the bonds would be paid by the towns' debt service on the low interest loans. For example, if the state paid 4.5% on the bonds that it issued to fund the program, the towns could pay an interest rate of 3.5% on the loan. That rate would be below what the towns could obtain in the bond market if they sold bonds directly, and yet the cost to the state would be limited to the 1% differential between the rate it paid and the interest it is charging the towns under the program. We believe that this represents a win-win for everyone involved and is a sound use of the state's bonding powers.

Furthermore, the bill would enforce funding discipline on participating municipalities. The legislation would require that the loan agreements contain provisions mandating a default on the loan if the municipality failed to make its actuarially required contribution to its pension fund in future years. No municipality would want to run the risk of being in default because of the disastrous consequences of a default if it ever wanted to issue bonds directly. Therefore, this legislation would also help ensure that participating municipalities avoid pension funding problems in the future by mandating that they make their required annual pension fund contributions.

In summary, we believe that this legislation represents a common sense and cost effective way of helping municipalities address their unfunded pension liabilities. Thank you for your consideration of this important legislation. I would be happy to answer any questions that you might have. Thank you.

Exhibit A

Ansonia
Avon
Berlin
Bethel
Bloomfield
Branford
Bridgeport
Brooklyn
Canton
Chester
Clinton
Coventry
Danbury
Deep River
Derby
Durham
East Hampton
East Hartford
East Windsor
Easton
Essex
Farmington
Glastonbury
Goshen
Granby
Groton
Guilford
Haddam
Hamden
Hartford
Killingworth
Ledyard
Litchfield
Madison
Manchester
Meriden
Middlebury
Monroe
Morris
New Fairfield
New Hartford
New Haven
New London
Newington
Newtown
Norfolk
North Branford
North Haven
Norwalk
Norwich
Plainfield
Plymouth
Portland
Ridgefield
Rocky Hill
Salisbury
Sherman
Simsbury
South Windsor
Southbury
Stratford
Suffield
Thomaston
Thompson
Torrington
Trumbull
Vernon
Wallingford
Warren
Waterbury
Watertown
West Hartford
Westbrook
Westport
Wilton
Winchester
Windham
Wolcott
Woodbury

Unfunded Actuarial Accrued Liability